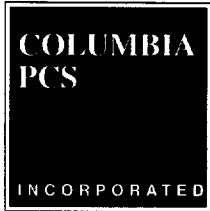


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MAY 19 1994

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY



DOCKET FILE COPY ORIGINAL

May 19, 1994

BY MESSENGER

Mr. William F. Caton, Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

RE: Gen. Docket No. 90-314, PP Docket 93-253

Dear Mr. Caton:

Columbia PCS, Inc. ("Columbia"), pursuant to Section 1.1206 (a) (1) of the Commission's Rules, 47 C.F.R. S 1.1206 (a) (1) (1992), hereby submits the attached exparte letter to Mr. Ralph Halles.

Please direct any inquiries concerning this matter to the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read "John A. Malloy", written over a horizontal line.

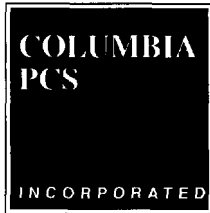
John A. Malloy  
General Counsel  
703-518-1407

cc: Mr. Donald H. Gips  
William Kinnard  
Byron Marshant  
Rudolfo Lujan Baca

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY



May 19, 1994

Ralph Haller, Chief  
PCS Task Force  
Federal Communications Commission  
1919 M. Street, N.W.  
Washington, D.C. 20036

Dear Mr. Haller:

As the FCC grapples with the difficult assignment of meeting the Congressional mandate of disseminating broadband PCS licenses to a wide variety of small businesses, women and minority owned businesses and rural telcos ("designated entities"), there are four salient facts that I would like to bring to your attention.

First, designated entities can raise sufficient capital to bid on licenses and construct systems under the Commission's proposed regulatory structure for broadband PCS. Columbia PCS, Inc. was formed on February 15th of this year with initial seed capital from Columbia Capital Corporation and Boston Communications Group, both of which qualify as small businesses under the Small Business Administration's definition of small business for radiotelephone. In a scant three months and in the face of substantial regulatory uncertainty, we have obtained a commitment in principle from Fidelity Capital to invest a substantial amount of funds in Columbia PCS as a Limited Partner. See Attachment 1 for the press release announcing this partnership. Of course, this agreement is based upon the FCC's previous proposal for a set-aside of spectrum for designated entities.

Second, the dominant telecommunications carriers have access to much more capital than designated entities, and these carriers can utilize internally generated cash to bid on PCS licenses. For example, the eleven largest telecom providers collected over \$190 billion in revenue last year and retained over \$60 billion in cash flow. See Attachment 2. Such a disparity in capital resources implies a total shut-out of designated entities from PCS licenses if they have to bid against these telecommunications giants.

Third, the largest telecom providers face a much lower "hurdle rate" (i.e., the acceptable return to a company given its perceived level of risk for a project and its cost of capital) than designated entities. Differences in hurdle rates lead directly to differences in companies' abilities to pay for spectrum for the identical perceived stream of revenue, expenses and profits. In Attachment 3, we show designated entities would require a

72% discount just to overcome the advantages of cost of capital enjoyed by the largest telecommunications providers.

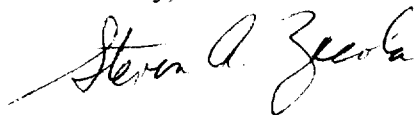
Fourth, designated entities face a competitive inequity vis a vis the largest telecommunications providers who hold cellular licenses. The incumbent cellular providers do not have to make any going-forward contribution for spectrum and the LECs were specifically provided an outright grant of cellular spectrum at no charge at its inception. If designated entities are forced to bid against the largest telecommunications providers even with a significant bidding credit, they will be wholly unable to compete in a bidding war that will require expansive resources of capital. Moreover, if a designated entity were able to win any licenses under such a scenario, it would be at a severe competitive cost disadvantage against the incumbent cellular providers and will not be able to provide robust service to the public.

Given these facts, the Commission will not be able to meet the Congressional mandate of disseminating a wide variety of licenses to small businesses, women and minority owned businesses and rural telcos without a set aside of spectrum for these entities to bid upon. Moreover, the Commission did not propose an alternative approach to a set aside in its Notice of Proposed Rulemaking for broadband PCS auctions and has not built a record to support any other approach. In fact, there is little opposition to a set aside in the record, and an overwhelming amount of support for the Commission's proposed approach. Finally, set-asides have passed Constitutional challenge and are routinely utilized by the Forest Service, the Bureau of Land Management, the Department of Defense and the Bureau of Indian Affairs to ensure that small businesses and minority-controlled entities have a fair opportunity to bid for government contracts and assets.

With a set aside and flexible financing arrangements through limited partnerships for designated entities, the Commission should be able to meet its Congressional imperative of disseminating a wide variety of licenses to small businesses, women and minority owned businesses and rural telcos. Nevertheless, the Commission should not underestimate the difficulty of some groups to raise capital for broadband PCS. In addition to a set aside for designated entities, the Commission may want to consider additional preferences for minority and women owned businesses in the set aside band.

We trust that the Commission will consider these factors before finalizing its approach on these matters.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven A. Zecola", written in a cursive style.

Steven A. Zecola

cc: William Kinnard  
cc: Donald Gipps

cc: Byron Marshant  
cc: Rudolfo Lujan Baca



**For Immediate Release**

**Contact: Scott Phillips  
Phillips + Associates, Inc.  
312-943-8858**

**FIDELITY CAPITAL TO INVEST IN COLUMBIA PCS**

**Partnership Plans to Acquire PCS Licenses; Build  
Nationwide Alliance of PCS Operators**

**ALEXANDRIA, Va., May 18, 1994** -- Columbia PCS Inc. announced today that Boston-based Fidelity Capital has committed in principle to make a substantial investment in Columbia PCS Limited Partnership to bid in auctions for Personal Communication Service (PCS) licenses and to operate PCS systems throughout the U.S.

The investment by Fidelity Capital is part of Columbia PCS Inc.'s plan to create a national alliance of other PCS providers in the telecommunications band that Congress directed the FCC to set aside for small businesses, women owned businesses, minority owned businesses and rural telephone companies. Once established, the alliance would provide for seamless nationwide PCS service using a single technology platform.

"PCS represents an unprecedented opportunity to provide our telecommunications customers with 'anytime, anywhere' communications, but it requires significant investment to reach its full potential," said Steven A. Zecola, president and chief executive officer of Columbia PCS. "This commitment by Fidelity Capital to become our anchor financing partner is an important step toward this very important goal."

**-more-**

## **Columbia PCS/Fidelity Capital**

### **Page 2**

James P. Hynes, managing director of Fidelity's telecommunications investments, added: "We believe that PCS can afford the corporate workforce with tremendous increases in efficiency and productivity, as well as appeal to individuals. On a national scale, these networks can have an enormous impact on economic stimulation and job creation, offering immense opportunities for all participants in this wireless revolution," he said. "We're very excited about pursuing these opportunities in partnership with Columbia PCS."

Columbia PCS Inc. will continue to pursue financing with additional qualified partners.

Fidelity Capital is the new business development arm of the Fidelity Investments the nation's largest mutual fund company. Its mission is to identify, invest in, operate and grow new business with an emphasis on telecommunications, publishing, transportation, and niche financial services.

Columbia PCS Inc. was formed earlier this year by Columbia Capital Corporation and other investors to provide PCS services throughout the U.S.

For more information contact Columbia PCS at 703-518-5073.

**###**

**ATTACHMENT 2**  
**1994**

**Large Capitalized US  
Telecommunications Companies  
Selected Statistics  
*In billions of Dollars***

<i>Company</i>	<i>Revenue</i>	<i>EBIDAT (1)</i>	<i>Book Value (2)</i>	<i>Employees</i>
Ameritech	\$11.7	\$5.0	\$7.8	67,200
Bell Atlantic	\$13.0	\$5.8	\$8.2	73,600
BellSouth	\$15.9	\$6.9	\$12.1	95,100
NYNEX	\$13.4	\$5.2	\$8.4	79,200
Pacific Telesis	\$9.2	\$4.4	\$7.3	55,400
Southwestern Bell	\$10.7	\$4.7	\$6.5	58,400
US WEST	\$10.3	\$4.7	\$5.9	60,800
GTE	\$19.7	\$7.6	\$7.3	131,200
AT&T	\$67.2	\$11.3	\$13.0	308,700
MCI	\$12.0	\$2.8	\$3.6	31,000
Sprint	\$11.4	\$3.1	\$3.2	52,000
AirTouch	\$1.0	\$0.3	\$3.4	
<b>Total</b>	<b>\$195.5</b>	<b>\$61.9</b>	<b>\$86.7</b>	<b>1,012,600</b>

1. Earnings before interest, depreciation, amortization, and taxes (operating cash flow)
2. Total assets minus total liabilities as measured on the company balance sheet.

### ATTACHMENT 3

Company Capitalization	Average Cost of Capital	Bid Price Per Pop	Designated Entity Discount Required
Big 12 Telcos	10.0%	\$14.48	72.2%
	12.5%	\$12.19	67.0%
Alltel, SNET, TDS, Rochester	15.5%	\$8.18	50.9%
		\$6.59	39.0%
Designated Entities	20.0%	\$4.02	0.0%

Bid prices in the valuation of any business is determined by discounting the expected stream of cash flows back to present value. The above chart implies that a large capitalized company with a 10% cost of capital could bid \$14.48 per POP in a market area and still earn its requisite 10% return on investment. In contrast, a designated entity with a 20% cost of capital -- facing the identical expected cash flows -- could only bid \$4.02 per POP in the same market area and earn its requisite 20% on investment. This inverse relation between cost of capital and valuation holds irrespective of changes to projected cash flows.

Bid price per pop based on values contained in a study submitted to the Federal Communications Commission by Time Warner Telecommunications on September 10, 1993.